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# R.J. REYNOLDS TOBACCO COMPANY

WINSTON-SALEM N.C.

# *Annual Report*

1952

# R. J. REYNOLDS TOBACCO COMPANY

# *Annual Report to the Stockholders*

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# Comparative Summary of Financial Data

## Sales, Earnings and Dividends

| | 1952 | 1951 |
|---|---|---|
| Net Sales | $881,424,299 | $814,216,968 |
| Net Earnings | 31,949,392 | 32,117,301 |
| Net Earnings as a percentage of Net Sales | 3.62% | 3.94% |
| Earnings per share on common stocks *before* taxes on income* | $ 9.25 | $ 8.92 |
| Taxes on income per share of common stocks* | 6.35 | 6.00 |
| Net Earnings per share on common stocks* | 2.90 | 2.92 |
| Dividends per share on common stocks | 2.00 | 2.00 |
| Dividends on Preferred Stocks | 2,934,000 | 2,934,000 |
| Dividends on common stocks | 19,723,308 | 19,715,714 |

*Based on 10,000,000 shares.

## Financial Position at Year End

| | | |
|---|---|---|
| Total Assets | $591,641,407 | $577,885,972 |
| Current Assets | 553,199,804 | 540,646,045 |
| Current Liabilities | 137,215,734 | 127,752,383 |
| Net Current Assets—Working Capital | 415,984,070 | 412,893,662 |
| Real Estate, Machinery and Equipment—net | 34,550,983 | 32,751,761 |
| Funded Debt | 130,000,000 | 135,000,000 |
| Capital Stock | 175,000,000 | 175,000,000 |
| Earnings Retained for requirements of the business | 149,425,673 | 140,133,589 |

# R. J. REYNOLDS TOBACCO COMPANY
## Winston-Salem, North Carolina

TO THE STOCKHOLDERS:

The Company's business showed continued growth during the past year. Shipments of both CAMEL and CAVALIER Cigarettes reached new highs, with CAMEL Cigarettes, PRINCE ALBERT Smoking Tobacco and DAYS WORK Chewing Tobacco remaining leaders in their respective fields. CAVALIER, the king-size cigarette introduced in 1949, increased its volume very substantially over 1951. The Company's brands of smoking and chewing tobaccos continued to represent a large portion of the country's total volume.

Sales for the year amounted to $881,424,299 and exceeded sales for 1951 by $67,207,331. Approximately 33% of this increase was due to the increased volume of business and the balance to the increase in the price, effective November 1, 1951, of cigarettes for domestic consumption. On that date the Company was permitted by the Office of Price Stabilization to advance its price for tax-paid cigarettes to cover only the increase of 50¢ a thousand in the Federal excise tax.

*Earnings and Taxes* While earnings before deduction of taxes on income were $95,514,378 in 1952, or $3,336,723 greater than in 1951, the net earnings in 1952 of $31,949,392 were $167,909 less than in the preceding year. This resulted from the fact that the provision for taxes on income, both Federal and state, for 1952 was $63,564,986, or $3,504,632 more than for 1951.

The excessively heavy burden of taxes on income is a matter of vital concern to all. With respect to the Company, the increased tax burdens in recent years have necessitated increased borrowings. These tax burdens have also necessitated, in line with the policy of making certain expenditures only when the net savings resulting

therefrom will permit the recovery of cost within reasonable time, deferment of various plant improvements which when made are expected to bring about further economies in operations. On page 5 is presented a chart which shows for each of the past ten years the provision for taxes on income, the total dividends paid on common and preferred stocks and the amount of earnings retained. It will be noted that for 1951 and 1952 the provision for taxes on income was almost twice as great as the combined amounts of dividends paid and earnings retained.

The almost universal recognition of the inequity of the so-called "excess profits" tax and of its effect in retarding the growth and efficiency of the Nation's industries lends encouragement to the hope that this tax will be permitted to expire as provided under present law on June thirtieth next. Provision made for this tax alone for 1952 was $10,690,484, or approximately $1.07 per share of common stocks.

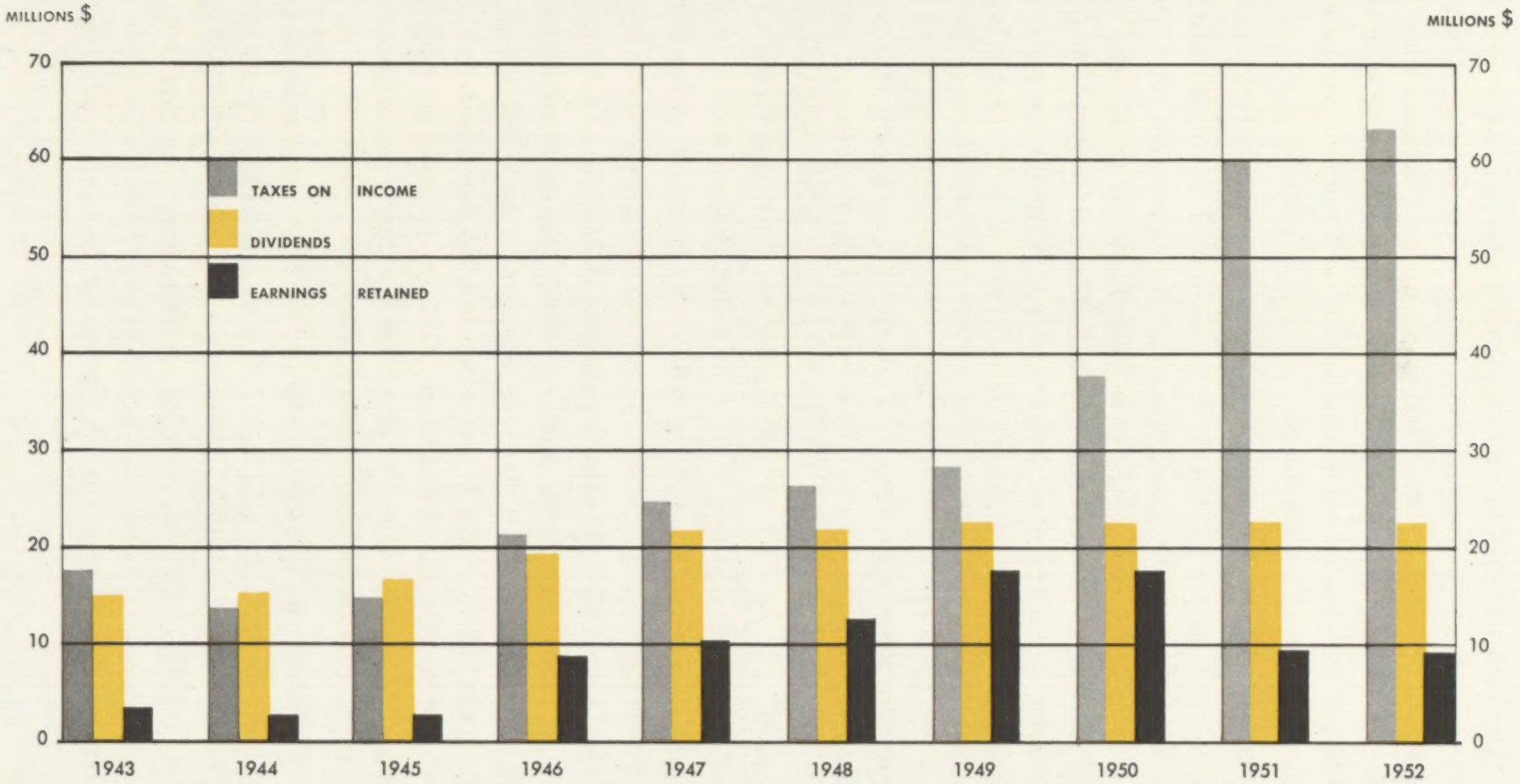
*Dividends* Total dividends paid in 1952 amounted to about 71% of net earnings. Dividends paid on the common stocks consisted of four quarterly dividends each in the amount of 50¢, or a total of $2.00 per share.

*Prices of Products* Prices of the Company's products are still controlled by the Office of Price Stabilization. Under present law, the existing price control program is scheduled to expire on April thirtieth next.

Since 1940, the net price charged by the Company for CAMEL Cigarettes, except for advances to cover increased Federal stamp taxes, has increased by only about 2¢ for a package of 20, while during this period leaf tobacco prices have more than doubled and other costs have increased very substantially.

*Inventories* Inventories, valued on the same basis as formerly, were carried at $506,464,131, or $10,772,632 more than at the end of 1951. Over 90 % of the inventories consisted of leaf tobaccos.

# COMPARISON OF TAXES ON INCOME, DIVIDENDS AND EARNINGS RETAINED



Although the 1952 flue-cured tobacco crop sold for an average price per pound which was less than such price for the 1951 crop, the grades purchased by the Company averaged higher. This was due to the scarcity in the crop, as the result of adverse weather conditions, of the choice grades required by the Company to maintain the high quality of its products.

Bank loans at the year end amounted to $60,000,000. These loans were made under the Credit Agreement with the Company's depositary banks, which agreement runs through June, 1955. For many years, similar borrowings have been made to enable the Company to finance its acquisitions of leaf tobaccos during the marketing seasons. All of the bank loans were paid prior to the opening of the flue-cured tobacco markets in July, 1952, and no further borrowings were made until October.

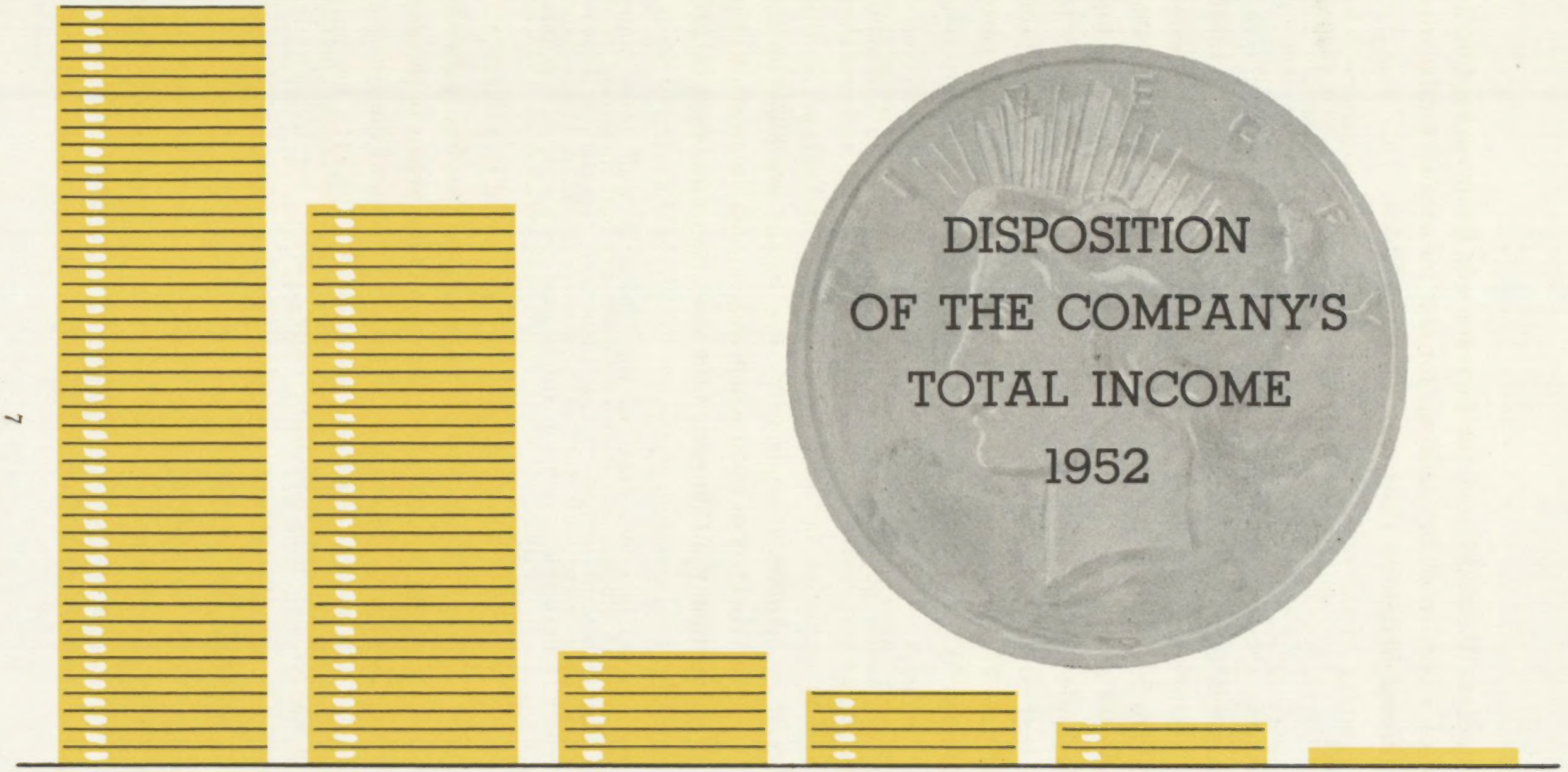
*Recent Growth*

One interesting fact about the Company that sometimes is not recognized is the great expansion in its business that has occurred in recent years. Some indication of this growth can be had by comparing the year just closed with 1945, the last year of World War II, in which year, despite controls which curtailed production, the Company sold more cigarettes than in any previous year.

By 1952, the Company's cigarette shipments had increased to a point where they were well over 60% greater than in 1945. Sales volume more than doubled, or went from $430,966,566 in 1945 to $881,424,299 in 1952. Net earnings in 1945 amounted to $19,229,310 compared with $31,949,392 in 1952, an increase of 66%, notwithstanding the fact that the provision for taxes on income was over four times greater in 1952 than in 1945.

From the end of 1945 to the end of 1952, total assets less current liabilities went from $218,412,601 to $454,425,673, an increase of $236,013,072, or 108%. This large increase resulted not only from the greatly expanded volume of business, requiring much larger inventories and additional plant facilities, but also from the very substantial advances in the prices of raw materials, particularly

# DISPOSITION OF THE COMPANY'S TOTAL INCOME 1952



Federal Excise Stamps
$430,087,047
48.79%

Leaf Tobacco, Wages, Other Manufacturing Costs and Freight
$314,310,465
35.66%

Taxes on Income
$63,564,986
7.21%

Selling, Advertising, Administrative, Interest and Other Expenses
$41,519,380
4.71%

Dividends to Stockholders
$22,657,308
2.57%

Earnings Retained for Requirements of the Business
$9,292,084
1.06%

leaf tobaccos. About 36% of the increase was financed by the retention of a portion of the earnings for the period and the balance by additional long-term debt and Preferred Stock.

*Research* Through the years, much emphasis has been placed by the Company on research. The Company's expanding business, the ever changing conditions in the industry, the developments in technology, and the constantly increasing importance of the contributions by science to industry have caused greater emphasis to be placed on research than ever before. To make possible the enlarged research program contemplated, the research staff has been expanded and a new Research Building, which is believed to be the best equipped and most complete in the industry, has been constructed. The new building is scheduled to be dedicated early in February. While the Research Department has had many outstanding achievements in the past, its new facilities and increased staff should make possible even greater benefits to the Company in the future.

*Stockholders* Appreciation is expressed to the stockholders for their continued cooperation and interest in the affairs of the Company. At the end of the year, they numbered 71,267, of whom 60,354 held common stocks and 10,913 held Preferred Stock. They are located in every state of the Union as well as in many foreign countries and include many insurance companies, investment trusts, foundations, pension funds and religious, educational and charitable institutions.

*Employees* The management acknowledges the fine achievements of employees throughout the year. At the end of the year, the regular employees numbered 11,454 and the seasonal employees 4,641. Of the regular employees, 81% had 5 or more years of service and 55% had 10 or more years of service. The remarkably low rate of turnover in employment has contributed much to the progress of the Company.

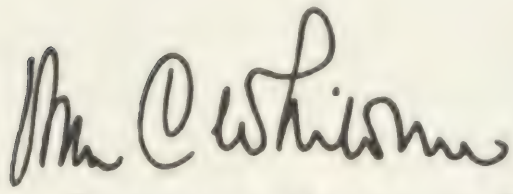
For many years the Company has given recognition to employees of long service. As of the end of last year, the Company had in its

employ 9 persons who had received awards for 50 or more years of service; 129 for 40 or more years of service; 934 for 30 or more years of service; and 4,368 for 20 or more years of service.

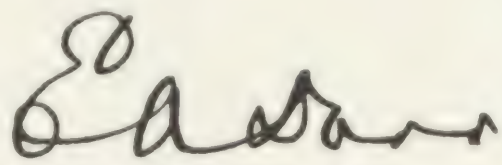
Over three years ago the Company embarked in a relatively new field for industry when it made available for its employees the services of a pastor-counselor. It is his undertaking to become personally acquainted with the employees and discuss with any of them, on a confidential basis, such personal problems as they may have. This service has been so highly successful that it has occasioned much favorable comment in other industries and in the national press. Many other companies have now undertaken similar programs.

With profound sorrow the death of Mr. Jas. A. Gray on October 29, 1952 is recorded. At the time of his death Mr. Gray was Chairman of the Board of Directors and Chairman of the Executive Committee. He had been a Director for thirty-two years and prior to becoming Chairman of the Executive Committee had served successively as Vice President and President.

Respectfully submitted for the Board of Directors.



CHAIRMAN BOARD OF DIRECTORS



PRESIDENT

January 27, 1953

# R. J. REYNOLDS TO

## Financial Position

### With Comparative

## ASSETS

| | 1952 | 1951 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 21,033,288 | $ 18,176,739 |
| Accounts receivable (net) for merchandise sold | 25,702,385 | 26,777,807 |
| Leaf tobacco, supplies, manufactured products, etc.—at average cost | 506,464,131 | 495,691,499 |
| TOTAL CURRENT ASSETS | 553,199,804 | 540,646,045 |
| REAL ESTATE, MACHINERY AND EQUIPMENT—at cost | 58,369,389 | 54,827,781 |
| Less depreciation, obsolescence, etc. | 23,818,406 | 22,076,020 |
| NET REAL ESTATE, MACHINERY AND EQUIPMENT | 34,550,983 | 32,751,761 |
| OTHER ASSETS: | | |
| Investments in non-competitive companies | 25,000 | 25,000 |
| Sundry receivables and deposits | 2,008,598 | 2,443,062 |
| Brands, trade-marks and good will | 1 | 1 |
| Prepaid expenses and deferred charges | 1,857,021 | 2,020,103 |
| TOTAL OTHER ASSETS | 3,890,620 | 4,488,166 |
| | $591,641,407 | $577,885,972 |

BACCO COMPANY

December 31, 1952

Figures for 1951

## LIABILITIES

| | 1952 | 1951 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 5,820,891 | $ 5,647,303 |
| Notes payable | 60,000,000 | 55,500,000 |
| Funded debt due within one year | 5,000,000 | 5,000,000 |
| Accrued Federal and state taxes—(Note A) | 65,237,021 | 60,593,967 |
| Sundry accrued accounts | 1,157,822 | 1,011,113 |
| TOTAL CURRENT LIABILITIES | 137,215,734 | 127,752,383 |
| FUNDED DEBT (Note B): | | |
| 2½% Promissory Notes | 74,000,000 | 78,000,000 |
| 3% Debentures, due 1973 | 56,000,000 | 57,000,000 |
| TOTAL FUNDED DEBT | 130,000,000 | 135,000,000 |
| CAPITAL AND EARNINGS RETAINED: | | |
| Preferred Stock—Par $100 | | |
| Authorized and issued 750,000 shares | | |
| 3.60% Series | 49,000,000 | 49,000,000 |
| 4.50% Series | 26,000,000 | 26,000,000 |
| Common Stock—Par $10 | | |
| Authorized and issued, | | |
| 1952—548,335 shares | | |
| 1951—566,122 shares | 5,483,350 | 5,661,220 |
| New Class B Common Stock—Par $10 (Note C): | | |
| Authorized 15,000,000 shares | | |
| Issued, 1952—9,451,665 shares | | |
| 1951—9,433,878 shares | 94,516,650 | 94,338,780 |
| | 175,000,000 | 175,000,000 |
| Earnings Retained for requirements of the business (Note D) | 149,425,673 | 140,133,589 |
| TOTAL CAPITAL AND EARNINGS RETAINED | 324,425,673 | 315,133,589 |
| | $591,641,407 | $577,885,972 |

# Statement of Earnings
## Year Ended December 31, 1952
### With Comparative Figures for 1951

| | 1952 | 1951 |
|---|---|---|
| NET SALES | $881,424,299 | $814,216,968 |
| OTHER INCOME: | | |
| Interest, dividends and sundry | 6,971 | 14,191 |
| TOTAL INCOME | 881,431,270 | 814,231,159 |
| LESS: | | |
| Cost of goods sold and other charges including selling and general expenses, but exclusive of items below | 777,627,414 | 713,505,243 |
| Provision for depreciation and obsolescence | 2,375,921 | 2,166,624 |
| Interest and debt expense | 4,580,290 | 4,703,899 |
| Provision for participation in profits under Article XII of By-Laws payable to 1,727 officers and employees for 1952 and 1,831 for 1951 | 1,333,267 | 1,677,738 |
| Provision for Federal and state taxes on income | 63,564,986 | 60,060,354 |
| TOTAL INCOME DEDUCTIONS | 849,481,878 | 782,113,858 |
| NET EARNINGS FOR YEAR | $ 31,949,392 | $ 32,117,301 |
| Dividends paid on Preferred Stock | $ 2,934,000 | $ 2,934,000 |
| NET EARNINGS APPLICABLE TO COMMON STOCKS | $ 29,015,392 | $ 29,183,301 |

# Statement of Earnings Retained
## Year Ended December 31, 1952
### With Comparative Figures for 1951

| | 1952 | 1951 |
|---|---|---|
| EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at beginning of year | $140,133,589 | $130,666,002 |
| ADD: | | |
| Net Earnings for year | 31,949,392 | 32,117,301 |
| | 172,082,981 | 162,783,303 |
| DEDUCT: | | |
| Cash dividends— | | |
| Preferred Stock | | |
| 3.60% Series | 1,764,000 | 1,764,000 |
| 4.50% Series | 1,170,000 | 1,170,000 |
| Common stocks at $2.00 per share, consisting of four quarterly dividends of 50c each | 19,723,308 | 19,715,714 |
| | 22,657,308 | 22,649,714 |
| EARNINGS RETAINED FOR REQUIREMENTS OF THE BUSINESS—at end of year (Note D) | $149,425,673 | $140,133,589 |

## Notes to Financial Statements

December 31, 1952

**Note A:** The Bureau of Internal Revenue has issued a deficiency notice for the years 1949 and 1950 in the total amount of $2,339,066 based on disallowance as deductions of certain payments under Article XII of the By-Laws. The deficiency assessment is being contested. Pending final determination, no reserve has been provided therefor.

**Note B:** The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1953-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

**Note C:** Of the authorized but unissued shares of New Class B Common Stock, 548,335 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,451,665 shares of issued New Class B Common Stock, 137,083¾ shares are held for exchange pursuant to said Exchange Option to Holders of Common Stock.

**Note D:** The 2½ % Promissory Notes and the indenture under which the 3 % Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the common stocks of the Company and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1952, the part of Earnings Retained not affected by these restrictions was $101,418,404.

# Report of Independent Certified Public Accountants

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1952, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1952, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,

Certified Public Accountants.

Winston-Salem, N. C.
January 26, 1953.

## Board of Directors

JOHN C. WHITAKER ..... *Chairman Board of Directors*
R. C. HABERKERN ..... *Chairman Executive Committee*
E. A. DARR ..... *President*
P. FRANK HANES ..... *Vice-President*
H. N. HARDY ..... *Vice-President*
BOWMAN GRAY ..... *Vice-President*
H. S. KIRK ..... *Vice-President*
W. J. CONRAD ..... *Vice-President and Secretary*
A. H. GALLOWAY ..... *Treasurer*
S. M. SCOTT ..... *Comptroller*
W. T. SMITHER ..... *Manager Advertising Department*
R. G. VALLANDINGHAM ..... *Superintendent of Leaf Buying*
H. H. RAMM .. *Solicitor and Assistant to Chairman of Board*
S. B. HANES, JR. ..... *Superintendent of Leaf Processing*
WILLIAM R. LYBROOK ..... *Associate Counsel*

### TRANSFER AGENTS

The Chase National Bank
of the City of New York
*11 Broad Street,*
*New York, N. Y.*

The First National Bank
of Jersey City
*1 Exchange Place,*
*Jersey City, N. J.*

### REGISTRAR

The Hanover Bank
*70 Broadway, New York, N. Y.*

# PRINCIPAL BRANDS OF THE COMPANY

## *CIGARETTES*

CAMEL • CAVALIER

## *SMOKING TOBACCOS*

PRINCE ALBERT • GEORGE WASHINGTON
OUR ADVERTISER • STUD • TOP

## *CHEWING TOBACCOS*

DAYS WORK • BROWN'S MULE • APPLE SUN CURED
REYNOLDS' NATURAL LEAF • REYNOLDS' SUN CURED
CUP • SCHNAPPS • HONEY CUT • CASH VALUE
STRATER'S NAT. LEAF TWIST • WINESAP • MICKY TWIST • TOP